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## Report Series 1991

# 91-15

# AMO's Response to the Report of the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship, 1991 (The Hopcroft Report)

Association of Municipalities of Ontario
August 1991

# MISSION STATEMENT

AMO unites Ontario's municipalities.

We take pride in promoting, supporting and enhancing strong and effective municipal government.

We provide strategic leadership by:

- developing and effectively promoting responsive quality policy;
- informing and educating governments, the media and the public;
- marketing innovative and beneficial services.

Our elected representatives, municipal officials and association staff form a team which values and respects:

- diversity and local autonomy;
- fairness and equity;
- consultation;
- consensus;
- co-operation.

... unites Ontario's municipalities

Association of Municipalities of Ontario

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September 9, 1991

To the Head of Council:

On March 21, 1991, the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship released its report. A copy of AMO's response to that report, as approved by the Association's Board of Directors, is enclosed for your information.

While the Advisory Committee Report had a number of shortcomings, the essential thrust of the report - that responsibilities and resources should be allocated in such a manner that both municipalities and the Province can be held accountable for the services they provide - is one which the Association of Municipalities of Ontario strongly supports.

As a result of the Advisory Committee Report and continuing pressure from AMO, the Province has agreed to enter into a process of consultation and analysis with the municipal sector to "disentangle" provincial and municipal roles and responsibilities. This process, which was announced at AMO's Annual Conference on August 20th, will be directed by a twelve member provincial-municipal steering committee.

Although the details of the disentanglement process have not yet been finalized, there will be ample time and opportunity for all municipalities to have input into the process. Given the breadth and complexity of the issues under consideration, it is unlikely that any decisions about the reallocation of service responsibility will be made for at least a year or more. During that time, AMO and the Ministry of Municipal Affairs will be working together to ensure that all stakeholders in the process are kept up to date on the progress of the discussions.

On behalf of the Association of Municipalities of Ontario, I hope that AMO's response to the Advisory Committee Report helps to increase your understanding of the need for reform of the provincial-municipal financial relationship, and I urge all municipalities to take an active interest in the disentanglement process.

Yours truly,

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# EXECUTIVE SUMMARY

In its Report, released on March 21, 1991, the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship presented a conceptual framework for a "disentangled" (or reformed) finance system between the Province of Ontario and the municipal sector.

In its response, the Association of Municipalities of Ontario presents its views on the recommendations contained in the Advisory Committee Report, with the explicit understanding that the Advisory Committee Report constitutes merely a single building block in the larger disentanglement process.

***Philosophical Principles***

AMO is satisfied that the six philosophical principles employed by the Advisory Committee are appropriate in establishing a clear understanding of the functions and responsibilities of each level of government. However, AMO is not in complete agreement with the Committee's proposed realignment of service responsibilities based on those principles. A tremendous amount of information gathering, analysis and consultation with affected stakeholders must be done before service responsibilities can be properly realigned between the two levels of government.

***Structural Simplicity, Diversity, Timeliness and Reliability of Funding***

AMO agrees with the transfer payment system proposed in the Advisory Committee Report. The structure of the proposed transfer payment system adheres to the fundamental principles of grant reform - structural simplicity, diversity, timeliness and reliability of funding. The new system would eliminate the existing complexities in calculating and administering provincial transfer payments, and underscore the differential resource requirements of various types of municipalities.

***Clearly defined Taxation Powers***

The establishment of clear fields of taxation for both levels of government constitutes a corner stone of any "disentangled" provincial-municipal finance system. Political and fiscal accountability can only be achieved within the context of a taxation system which institutes a strict linkage between revenues raised from the municipal tax base and priorities established by municipal councils. While some of the Advisory Committee Report's recommendations concerning taxation require further review, AMO strongly endorses the basic thrust of the taxation component of the report.

***Implementation - the Disentanglement Process***

At the time of writing AMO's response, AMO and the Province had agreed to a general framework for proceeding with the disentanglement exercise. Although a number of operational decisions are still to be made, it has been agreed that a fundamental element of the process will be full and open consultation with all affected interests. In entering into that process, AMO will strive for a realignment of roles and responsibilities which maximizes the benefits and minimizes the negative impacts on all parties involved.

***Recommendations Regarding the Process and 1992 Transfer Payments***

AMO's response makes several recommendations with respect to the financial parameters of the disentanglement process and the interim unconditional grant levels for the 1992 fiscal year:

1) That the negotiations between the municipal sector and the Province regarding the re-alignment of roles and responsibilities be guided by the following principles:

   Principle 1: Municipalities which experience negative net financial impacts due to disentanglement will receive transitional financial assistance during the re-organization of the financial partnership.

   Principle 2: Upper and lower tier levels of government will negotiate financial adjustments concerning the usage of property tax revenues.

2) That the Province provide a uniform, across-the-board increase in unconditional grants at least equal to the rate of inflation for the 1992 fiscal year, and that conditional and unconditional grants be announced by November 15, 1991 for the 1992 fiscal year.

***Need for Consultation on Constitutional Role of Municipalities***

In conclusion, the Association states its concern that succeeding governments may reverse some of the progressive changes achieved in the process of disentanglement. Consequently, AMO argues that the disentanglement process must run parallel to a process to define and operationalize the constitutional role of Ontario's municipalities within the larger framework of fiscal federalism, and requests that the Province of Ontario enter into consultation with the municipal sector on the constitutional role of Ontario's municipalities.

# 1.0 INTRODUCTION

> "The purpose of the state is to serve the people. The ultimate purpose of a national economy is to serve the people as well, not the other way around. But if the state founders and the economy declines, we will be unable to achieve our goals as a people - be they social, cultural or educational". (The Globe and Mail, Friday, June 14, 1991)

*Economy and Goals*

In the above quote, the writer recognizes that a government's major *raison d'être* is providing services to the people. Furthermore, the writer highlights that economic conditions constitute a fundamental cornerstone either favouring or hampering the achievements of various national goals. This observation holds true regardless of the level of government under consideration. Thus, municipal governments' success in providing services to their communities is in part dependent upon a sound provincial-municipal finance system which is designed to foster political and fiscal accountability of elected municipal officials.

*Constitutional Changes*

Canada has embarked on a route toward profound and far-reaching political and societal changes evidenced in the current debate on constitutional reform. The search for a new model of federalism at the national level is paralleled by the quest for more fair and rational system of roles and responsibilities between provincial governments and the municipal sector.

*A Decade for Reform*

The Association of Municipalities of Ontario (AMO) indicated in its 1991 pre-budget consultation brief that "this decade constitutes a critical time period for an examination and re-organization of the fundamental roles and responsibilities assumed by the Province of Ontario and Ontario's municipalities within the framework of fiscal federalism". (p. 1)

***Blueprints for Fiscal Reform***

In the past, the Association has fervently lobbied for provincial-municipal finance reform, particularly since the last comprehensive review of Ontario's public finance system was in 1967. More recently the Association has either generated, or responded to, a number of policy reports which can be seen as attempts to provide blueprints for fiscal reform for either a specific service area or a particular form of funding (e.g. AMO's Response to the Report of the Provincial-Municipal Social Services Review (PMSSR), Long-Term Care Reform, New Dimensions, etc.).

The Association is pleased that the current provincial leaders have repeatedly expressed their sincere commitment to reform of the provincial-municipal partnership:

***Provincial Commitment for Reform***

> "During last year's election campaign, Mr. Rae and 27 of the 30 NDP candidates from Metro Toronto agreed with ... the proposal to establish a formal consultation process ... to review all existing reports on municipal-provincial fiscal relations, roles and responsibilities, in order to determine a new deal on existing relationships." (Address by Chairman Alan Tonks to the Council of the Municipality of Metropolitan Toronto, October 1990, p. 3)
>
> "I think it is important for us to get on with the job of making it clear to citizens who is paying for what and who is responsible for raising the money for whatever services are being provided". (Premier Bob Rae, Address to the AMO Rural Section Conference, 1990)

***Fair Tax Commission***

The establishment of the Fair Tax Commission can be perceived as yet another significant milestone toward achieving a more equitable of public finance in the Province of Ontario - a system designed to balance the needs of disadvantaged societal groups with the need of Ontario businesses to remain competitive in the global marketplace.

***Disentanglement***

The term *DISENTANGLEMENT*, initially defined as a structural arrangement whereby "the level of government primarily responsible for managing a program should be held accountable for that program and contribute to its funding" (New Dimensions, 1990, p. 29), has since come to stand for a comprehensive re-organization of the provincial-municipal

financial partnership based on a set of rational decision criteria or philosophical principles. In its Report, released on March 21, 1991, the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship has presented a conceptual framework for a "disentangled" (or reformed) finance system between the Province of Ontario and the municipal sector.

***Ongoing Political Consultation and Technical Information Interchanges***

In this discussion paper, the Association of Municipalities of Ontario will present its views on the recommendations contained in the Advisory Committee Report with the explicit understanding that the Advisory Committee Report constitutes merely a single building block in the larger disentanglement process. Without minimizing the tremendous accomplishment of the Advisory Committee in addressing the present complexities and pitfalls of the provincial-municipal finance system, AMO recognizes that on-going political consultations and technical information interchanges need to take place between the Province of Ontario and Ontario's municipalities in order to further refine the reform proposals advanced by the Advisory Committee.

AMO's presentation will be divided into four sections: commentary on the philosophical principles and the proposed re-alignment of roles and responsibilities, a brief discussion of education funding, commentary on a new municipal revenue structure, and implementation of the disentanglement process.

Within each section, the recommendations contained in the Advisory Committee Report are shown along with an indication of whether AMO endorses or does not endorse the recommendation(s).

# 2.0 PHILOSOPHICAL PRINCIPLES FOR THE REALIGNMENT OF ROLES AND RESPONSIBILITIES

## 2.1 SIX DECISION CRITERIA (RECOMMENDATIONS 1 & 2)

*RECOMMENDATION 1*

*The Committee has adopted and applied the following principles and recommends that they be used to guide the allocation of roles and responsibilities for the policy/service management, delivery and funding of services:*

*a) to the extent that income redistribution is a program or service objective, policy/service management and program financing should be a provincial responsibility;*

*b) the degree of involvement in policy/service management for each level of government should be determined by the type and level of spillovers;*

*c) services should be produced at the level of government that can do so most economically;*

*d) services should be delivered by the level of government that can do so most effectively;*

*e) the degree of involvement in policy/service management for each level of government should be dictated by the level of interest or the need for standards;*

*f) the allocation of policy/service management, financing and delivery responsibilities should be based on promoting accountability.*

♦ ENDORSEMENT

***RECOMMENDATION 2***

***The Committee's proposed framework should be adopted by the Province as a guide for realigning provincial-municipal responsibilities.***

♦ **ENDORSEMENT**

In New Dimensions, 1990, the Association of Municipalities of Ontario argued that a reform of the provincial-municipal partnership needs to work toward establishing clarity in inter-governmental relations:

> "Canadian constitutional law provides that the provinces are responsible for 'municipal institutions' within their boundaries. The provinces delegate in legislation authority to municipal institutions to carry out certain municipal functions.
>
> There should be a clear understanding ... of the functions and responsibilities of each level of government ... AMO recognizes that certain functions and programs are best delivered and financed at the provincial level in order to achieve equity in service across the province and to realize economies of scale. However, there are some functions and programs that are best delivered at the local level. The Association believes that these locally delivered programs should be municipally administered with a degree of control and discretion by the municipality". (p. 24)

***Philosophical Principles Appropriate for Establishing Clarity in Intergovernmental Relations***

The Association of Municipalities of Ontario is satisfied that the six philosophical principles employed by the Advisory Committee to assess which level of government should assume responsibility for policy setting/management, delivery, and funding of services currently under some form of municipal/provincial jurisdiction are appropriate in establishing this clarity.

## 2.2 PROPOSED SYSTEM OF RE-ALIGNED ROLES AND RESPONSIBILITIES

The Advisory Committee's Report attempted to set out a possible new division of service management, delivery and funding responsibilities based on the six principles for provincial-municipal financial reform. A preliminary review of that proposal by AMO indicated that, while the Association agrees with the Advisory Committee on the proposed realignment of many of the services listed, there are also a number of services which AMO believes were inappropriately designated by the Advisory Committee as municipal, provincial or shared.

While recognizing the preliminary nature of the Advisory Committee's work, there are several conclusions that can be drawn from the analysis of service responsibility which has been conducted to date:

1) there is general agreement that there are a number of service areas within which management, funding and delivery could be realigned to produce more accountable, efficient and effective government;

2) the municipal sector is a diverse collection of municipal types, sizes, and fiscal capacities; any realignment of provincial and municipal roles and responsibilities will almost certainly result in municipalities which are better off and municipalities which are worse off;

3) a tremendous amount of information gathering, analysis and consultation with affected stakeholders must be done before service responsibilities can be properly realigned.

It is AMO's hope that the recently announced provincial-municipal disentanglement process will provide the vehicle for that analysis and consultation. In entering into that process, AMO will strive for a realignment of roles and responsibilities which maximizes the benefits and minimizes the negative impacts on all parties involved.

## 2.3 SPECIAL PURPOSE BODIES (RECOMMENDATION 3)

***RECOMMENDATION 3***

***Each level of government should have representation on special purpose bodies commensurate with their responsibility and accountability for that service.***

♦ **ENDORSEMENT**

*Special Purpose Bodies and Accountability*

In its report, Accountability and Special Purpose Bodies: The Example of District Health Councils, 1991, the Association of Municipalities of Ontario supported the "elimination of statutory special purpose boards, commissions, committees and authorities with governing responsibilities for their function and operation assigned directly to the appropriate municipal council". (p. 3)

This recommendation is based on the rationale that provincially mandated special purpose bodies contravene the principle of political and fiscal accountability to the extent that these bodies usually lack majority municipal representation and can requisition financial support from the municipality without council's final sanction.

*Police Funding*

The Association endorses recommendation 3, as it suggests the desired remedy to the current problems surrounding special purpose bodies. For instance, in congruence with its position on special purpose bodies, the Association of Municipalities of Ontario suggests a revised model for the financing of police services:

> "As long as the provincial government appoints the majority of members on municipal police services boards, the Province should assume the cost of police services. AMO can only agree to municipal funding of police services if police services boards either become committees of council or if the majority of members on municipal police services boards are appointed by municipal councils." (Commentary, AMO Ad Hoc Task Force on Security Services, 1990)

# 3.0 EDUCATION

*RECOMMENDATION 4*

***The share of the property tax base used to support provincially mandated education programs should be decreased by increasing provincial funding, thereby lifting some of the load off property taxes.***

*RECOMMENDATION 5*

***The Committee endorses a number of recommendations made by the Select Committee on Education:***

- ***The Ministry of Education should consult with the key partners in education as soon as possible in order to:***
  - ***determine a clear and understandable mode of calculating the cost of providing the education services mandated in the Education Act and identifying the basic components of recognized expenditure; and***
  - ***develop a rational means of updating these cost calculations and ceiling determinations within a realistic expenditure framework.***
- ***In reviewing the overall calculation and adequacy of provincial operating and capital transfers, the Minister of Education and key partners in education should examine how to improve equitable access to education resources throughout the province.***
- ***The Minister of Education should establish a task force to examine options to make the tax base for education funding more progressive.***
- ***The Ministry of Education should conduct all policy reviews with the goal of simplifying the structure of education finance.***
- **ENDORSEMENT**

The Association of Municipalities of Ontario fully supports recommendations 4 and 5 which call for a basic review of education finance in the Province of Ontario and an increased financial contribution by the provincial government to the education system.

***100 Per Cent Provincial Funding for Education***

In the 1988 Provincial Budget submission and the policy report on Education Funding in Ontario, 1988, AMO proposed that the provincial government ultimately assume 100 per cent of total education expenditures for elementary and secondary schools. The rationale for this position lies in the consideration that education contributes to the general advancement and well-being of society. It is inappropriate to finance the costs of education using property tax revenues as this type of expenditure bears no direct relationship to the value of property. Furthermore, educational costs have risen dramatically over the past years with the introduction of new programs, the acquisition of new technology and the reduction in class size. This escalation in school board expenditures continues to exert undue pressure on the limited municipal tax base.

***Disentangling Education Funding***

Disentangling education funding from the municipal tax base is an integral part of the larger reform process designed to re-align the roles and responsibilities between the Province of Ontario and the municipal sector.

# 4.0 MUNICIPAL REVENUES

## 4.1 NEW TRANSFER PAYMENT SYSTEM (RECOMMENDATIONS 6 - 13)

*RECOMMENDATION 6*

*All conditional transfer programs should be reconsidered in light of the realignment of responsibilities recommended in this report and the resulting transfer programs should be based on the following objectives and principles:*

*a) conditional transfer programs should be based upon clear jurisdictional responsibilities and interests;*

*b) the conditional transfer system should promote accountability;*

*c) resource equalization should not take place through the conditional transfer system;*

*d) in areas of shared responsibility, a uniform transfer rate should be applied to the actual costs incurred by municipalities in providing services to mutually agreed upon standards.*

*RECOMMENDATION 7*

*The concept of resource equalization should be carried out through unconditional transfers, an enhanced property tax credit and tax deferrals.*

♦ <u>ENDORSEMENT IN PRINCIPLE. FURTHER STUDY IS NEEDED</u>.

*RECOMMENDATION 8*

*The unconditional transfer system should consist of:*

*a) a general transfer to municipalities provided uniformly on a relatively simple basis (i.e. tax levies); and*

*b) a transfer of last resort to assist poor municipalities. This transfer would be received on a formula-driven basis rather than as a continuing entitlement (this is expected to account for roughly 20 per cent of the total unconditional transfer). Its distribution mechanism is to be determined by the Province in consultation with municipalities.*

*RECOMMENDATION 9*

*The Ministry of Municipal Affairs should expand its municipal data base to include general economic indicators, particularly employment and income-related data, by municipality.*

*RECOMMENDATION 10*

*The transfer payment system within the new provincial-municipal financial relationship should promote stability and predictability. Changes in the transfer system should be made only after discussions between the Province and its municipalities.*

*RECOMMENDATION 11*

*The details of all transfer payments should be announced by the 15th of November of the year prior to the transfer payment year.*

♦ **ENDORSEMENT IN PRINCIPLE. FURTHER STUDY IS NEEDED.**

The Association of Municipalities of Ontario expressed agreement with the new transfer payment system as outlined in the preceding recommendations. AMO believes that the structure of the proposed transfer payment system adheres to the fundamental principles of grant reform as outlined in New Dimensions, 1990, including structural simplicity, diversity, timeliness and reliability of funding.

***Structural Simplicity, Diversity, Timeliness and Reliability of Funding***

The proposed unconditional and conditional grant system eliminates the existing complexities in calculating and administering provincial transfer payments. The new transfer payment system would also underscore the differential resource requirements of various types of municipalities (e.g. resource equalization through the unconditional grants transfer system, transfers of last resort). Recommendation 11 specifically addresses the need for transfer payments to be announced in a timely fashion in order to allow municipalities to properly plan and budget. Recommendation 10 stresses the need for on-going provincial-municipal consultations surrounding any changes in transfer payments (reliability of funding).

***Database - Valid Indicators of Economic Conditions***

However, the Association argues that successful implementation of this proposed new transfer system largely depends on the establishment of a database which will provide valid indicators of a municipality's economic condition. Grant allocations under the proposed new revenue scheme can only be made in an equitable manner if the resource needs of a given municipality can be adequately measured.

***"Poor Municipality"***

A note on semantics is also warranted in this context. AMO suggests replacing the term "poor municipality" with the phrase "municipalities which do not have a sufficient revenue base to allow them to carry out the basic municipal functions required."

***Financial Impact Analysis***

It is apparent from the financial case scenarios contained in the Advisory Committee Report that the new transfer payment system will have a differential financial impact on municipalities of varying sizes and with varying responsibilities. The operationalization of the proposed new transfer system would require a much more detailed

financial impact analysis designed to address such questions as:

♦ How would the use of different funding ratios for shared provincial-municipal functions (50/50, 80/20, 75/25) impact upon municipal budgets?

♦ What are the financial implications of certain trade-offs of function areas between the Province of Ontario and the municipal sector?

♦ What 'financial safeguards' (transitional assistance) will be provided for municipalities during the multi-phased implementation process of disentanglement?

In conclusion, AMO endorses the proposed new transfer payment system in principle, but cautions that a number of important issues concerning the operationalization of this scheme need to be addressed.

## ♦ REVENUE SHARING

*RECOMMENDATION 12*

***To address the shortfall between aggregate municipal expenditures and municipal fiscal capacity, the Province should develop a revenue-sharing formula to determine the allocation to unconditional transfers.***

*RECOMMENDATION 13*

***The revenue-sharing formula should assign to the unconditional transfer allocation the necessary percentage points of a representative bundle of provincial tax revenues on the basis of a three-year rolling average.***

**♦ ENDORSEMENT IN PRINCIPLE, A NUMBER OF OPERATIONAL QUESTIONS NEED TO BE CLARIFIED.**

***Revenue-Sharing - A Long-standing Tenet of the Association***

AMO has lobbied the provincial government on numerous occasions for the establishment of a revenue-sharing agreement. In New Dimensions, 1990, the Association argued that "the property tax must be augmented by a stable and consistent transfer payment system. The transfer payment system must reflect the sharing of roles and responsibilities. Consequently, our transfer payment system should not be regarded as 'grants' or 'gifts' but sharing in revenues to fulfill the goals and objectives of the programs. (p. 33)

The Association advanced a similar proposal in its 1991 pre-budget consultation brief:

> "The Association of Municipalities of Ontario requests that the Province of Ontario support the exploration of alternative sources of revenues and the establishment of a revenue-sharing act as necessary revenue generating mechanisms for the municipal sector. It is imperative that municipalities be granted access to new sources of revenues designed to bridge the gap between municipal fiscal capacity and aggregate municipal expenditures."

AMO suggested that revenues from this source could possibly be allocated to special initiatives in the area of environmental protection.

Consequently, AMO endorses in principle, recommendations 12 and 13 of the Advisory Committee Report. The Association stresses, however, that the following questions have to be discussed in more depth in any deliberations on a provincial-municipal revenue-sharing arrangement:

***Operationalization of a Revenue-Sharing Agreement***

1) What type and amount of provincial tax revenues will be included in the revenue-sharing formula?

2) Does the establishment of a revenue-sharing system constitute another element of "entanglement" between the municipal and the provincial government?

In conclusion, AMO will review recommendations 12 and 13 once a proposed revenue-sharing agreement has been further defined in operational terms.

## 4.2 PROPERTY TAXATION (RECOMMENDATIONS 14 - 18)

***RECOMMENDATION 14***

***Full market value assessment across the Province should be implemented through the use of upper-tier-wide reassessments. These reassessments should be updated every four years. It will also be necessary to develop a mechanism to put all municipalities on the same base for transfer purposes.***

♦ ENDORSEMENT

***Full Market Value Re-Assessment Endorsed***

The establishment of mandatory full market value re-assessment (Section 70) on a province-wide basis reflects one of the long-standing policies held by the Association of Municipalities of Ontario. The need to develop an equitable measure of property values for all municipalities in this province is addressed in a number of previous policy documents including Toward Property Tax Reform, 1980, and AMO's Response to the Report of the Commission on the Reform of Property Taxation, 1977:

> "From the Smith Report to the Debates in the Legislature of Ontario in December 1979 the inequitable situation surrounding the assessment of property has been well-documented ... the Association of Municipalities of Ontario once again reaffirms its stand that all property in Ontario must be assessed on a comparable standard. Thus, AMO urges the Province to proceed with the full implementation of market value assessment." (Toward Property Tax Reform, 1980, p. 1)"

AMO recognizes that the Advisory Committee's proposal to update re-assessments on a four-year cycle has been chosen for administrative reasons. At present, the Minister of Revenue does not possess the necessary fiscal or human resources capacity to complete re-assessments for all municipalities in the same year. However, the Association wishes to stress that under ideal circumstances it supports the idea of re-assessments being completed for all municipalities in the same year.

***RECOMMENDATION 15***

***Variable mill rates should be introduced on a permanent basis as a tax policy measure available to councils.***

♦ **NOT ENDORSED UNTIL FURTHER CLARIFICATION RECEIVED**

At the present time, AMO does not want to advance a firm policy recommendation on the introduction of variable mill rates as a permissive taxation policy instrument for municipal councils. The Association argues that more-in-depth study of this particular issue is needed. In this context, AMO wishes to submit the following questions as starting points for any deliberations on this matter.

***Further In-Depth Discussion on Variable Mill Rates***

1) Could the introduction of this tax policy measure lead to "economic development by variable mill rate"? Should the provincial government establish a certain degree of control over the use of variable mill rates or, vice versa, should municipal councils have sole authority to impose variable mill rates for different property classes?

2) Will the establishment of a variable mill rate system employed on a permissive basis re-create inter-municipal disparities which property tax reform measures attempt to eliminate?

3) What type of property classification scheme will be used in conjunction with a permissive variable mill rate system? For example, would it be possible for municipal councils to subdivide the residential property class into permanent residential dwellings versus temporarily occupied cottages and establish differential mill rates for these subsections of the residential property class?

4) What would be the role of the Property Assessment Corporation in this context?

***RECOMMENDATION 16***

***The present business assessment and business tax structure should be eliminated. The existing statutory 15 per cent differential between the residential and commercial mill rates should be widened so that the total commercial and industrial tax burden remains the same in aggregate in the province.***

♦ **ENDORSEMENT**

The Association of Municipalities of Ontario supports recommendation 16 of the Advisory Committee Report, which proposes abolishing the current system of business assessment and taxation.

***Historical Perspective in Favour of Business Assessment***

In its Response to the Budget Paper E, 1987, and the Report of the Commission on the Reform of Property Taxation in Ontario, 1977, AMO acknowledges the problematic questions surrounding business assessment (administrative costs, mechanisms favouring tax evasion, shift of lost in business tax revenue to the residential sector, etc.). But AMO also highlights the advantages of this particular tax as a municipal revenue source:

> "The continued existence of the business tax is a difficult question to resolve. On the one hand, business tax is levied on real property use not on value, therefore its continued application within the municipal property tax structure could be considered questionable. On the other hand, elimination of the business tax would create a major shift in the property tax burden to the residential property owner ... this is not acceptable. In striking the balance between conceptual accuracy and practicality, the Association recognizes the validity of the points raised by the Blair Commission as follows:
>
> ♦ province-wide the business tax raises substantial revenue (more than one-quarter billion dollars) and the tax has gained acceptance and become part of the historic equilibrium of the existing property tax system in Ontario;

♦ substituting the business tax with grants would create other complexities such as the appropriate criteria for grant distribution, designation for school board purposes, the shift of property tax burden to other sources with possibly undesirable effects;

♦ generating the required revenues from increases in mill rates rather than through the business tax would shift half of the revenue to the residential property sector where such taxes are not deductible for income tax purposes".

(Report of the Commission on the Reform of Property Taxation in Ontario, 1977, p. 45)"

***Commercial Realty Tax to Replace Current Business Tax***

In 1989, AMO participated on a working committee on business assessment under the auspices of the Association of Municipal Clerks and Treasurers of Ontario. Subsequently, AMO endorsed the recommendations presented in the committee's final policy paper, Business Taxation in Ontario, 1989. This report proposes that the present system of business assessment be substituted by an expanded commercial realty tax.

The advantages of a reformed business tax system are as follows:

1) this concept (commercial realty tax) is universally applicable;

2) under a system of commercial realty taxation, the responsibility for paying taxes belongs to the property owner rather than the tenant;

3) municipalities would be able to consolidate the realty bills and the business tax bills into one comprehensive tax reform;

4) a commercial realty tax, by its very nature, would include a "built-in" mechanism for collection thereby reducing the number of instances where municipalities would require assistance from a third party in order to collect outstanding taxes;

5) currently municipalities are compelled to budget for invisible write-offs that occur due to a lack of revenue from business taxation. This practice continues .... the fundamental principle ... that the residential mill rate must not bear the loss of business tax revenue" (p. 3)

In conclusion, AMO urges the provincial government to enter into a discussion on a reformed business tax structure within the context of disentanglement.

## ♦ TAX CREDIT SYSTEM

***RECOMMENDATION 17***

***Low-income individuals should be assisted through an enriched and more sensitive tax credit system that is based solely on need.***

***RECOMMENDATION 18***

***The Province should develop and implement a province-wide property tax deferral scheme for the elderly.***

**♦ ENDORSEMENT IN PRINCIPLE, FURTHER CLARIFICATION IS NEEDED.**

The Association of Municipalities of Ontario has expressed agreement in principle with recommendations 17 and 18 which propose the establishment of a new tax credit system for low-income individuals on a needs tested basis and a province-wide property tax deferral scheme for the elderly.

***Operational Questions Surrounding the Tax Credit System***

However, prior to a full commitment to these suggested programs, the Association believes that more detailed background information is needed with regard to the administration of these proposed schemes.

For example, depending upon the level of government which assumes the funding responsibility for a tax deferral scheme, a significant number of resources would have to be set aside to update records of deferred taxes, to compute interest accrued during periods of deferment, or to recapture deferred taxes.

AMO will entertain a closer examination of these two recommendations once sufficient technical data examining options for the operationalization of these two programs are available.

## 4.3 ALTERNATIVE SOURCES OF REVENUES (RECOMMENDATIONS 19 - 34)

*RECOMMENDATION 19*

***Each level of government should have clear fields of taxation in keeping with its roles and responsibilities.***

- ENDORSEMENT

***Clearly defined Taxation Powers - Political and Fiscal Accountability***

The establishment of clear fields of taxation for both the municipal and provincial government constitutes a corner stone of any "disentangled" provincial-municipal finance system. AMO believes that political and fiscal accountability of municipal elected officials can only be achieved in the context of a taxation system which institutes a strict linkage between revenues raised from the municipal tax base and priorities established by municipal councils. This rationale is supported in New Dimensions, 1990:

> "The principle of political accountability was clearly enunciated in the 1976 Report of the Commission of the Reform of Property Taxation in Ontario which concluded that the property tax base was an appropriate means of defraying costs which remain under a measure of local control. For example, funding for a service should not be based on the

municipal property tax if the municipality is strictly the administrative agent for a service which is mandatory and strictly regulated by the provincial level of government. Therefore, there must be a logical relationship between the amount of municipal control in providing a service and the degree to which the municipal property tax base supports that service." (p. 25)

Furthermore, an acknowledgment of clearly defined taxation powers for both levels of government fosters municipal autonomy by allowing municipal councils to respond to local needs as they see fit.

***RECOMMENDATION 20***

***The Committee does not endorse the use of a municipal income tax.***

♦ **ENDORSEMENT**

***Other Provincial Jurisdictions***

At the present time, municipal governments have taxing powers in the income tax field in a number of provincial jurisdictions, including British Columbia and Manitoba. In the United States, the municipal sector collects its share of personal income tax from the respective places of employment levying this surtax on earned income as opposed to income from other sources.

In the document, The Crumbling Financial Partnership, 1989, the Municipality of Metropolitan Toronto released the following estimates of projected revenues from the establishment of a municipal income tax in the GTA:

**Revenue from a municipal personal income tax in the Greater Toronto Area, 1986**

| | $ Millions |
|---|---|
| a) 1% Flat Rate Tax on Total Income | 613.0 |
| b) 1% Flat Rate Tax on Earned Income | 464.2 |
| c) 4% Surtax on Total Tax Payable | 501.3 |

(The Municipality of Metropolitan Toronto, 1989, p. 42)

Nevertheless, AMO does not support the use of a municipal income tax as a means of generating additional municipal revenues based on a number of reasons, as noted below.

***Rationale for Non-support of a Municipal Income Tax***

The imposition of a municipal surtax on the current personal income tax base used by the provincial government would constitute another incidence of "entanglement". This tax measure would contradict recommendation 19 of the Advisory Committee Report, which argues for the merit of establishing clear fields of taxation for each level of government.

Furthermore, the municipal sector agrees that income-redistributive programs should be re-assigned in full to the provincial government, which has access to progressive fields of taxation such as the personal income tax. Consequently, the need for a municipal personal income tax would be eliminated by this re-alignment of program responsibilities.

AMO also underscores the Advisory Committee's deliberations which highlight that a municipal personal income tax may not necessarily foster the perception of political accountability in the eyes of municipal taxpayers.

***RECOMMENDATION 21***

***The Committee does not endorse the use of a municipal payroll tax.***

♦ **ENDORSEMENT**

The Association of Municipalities of Ontario rejects the establishment of a municipal payroll tax. This is primarily based on the rationale that such a levy constitutes a form of income tax or corporate tax. As pointed out previously, AMO believes that the municipal and provincial governments should be assigned separate fields of taxation (recommendations 19 and 20). In this context, the Association considers levying income-related taxes the prerogative of the provincial government.

***RECOMMENDATION 22***

***The Committee does not endorse the use of a municipal sales tax.***

♦ **ENDORSEMENT**

AMO rejects the institution of a municipal sales tax which would give municipalities access to a certain percentage point increase in retail sales tax. As mentioned in the Advisory Committee Report, even a 1 per cent point increase in retail sales tax would yield approximately a $1 billion increase in revenues. Despite the significant earnings which would be generated via this tax policy measure, AMO recognizes a number of disadvantages regarding the municipal sales tax.

***Rationale for Non-support of Municipal Sales Tax***

The Smith Report, 1967, argued that metropolitan centres and smaller rural municipalities experience differential consumption patterns. As a consequence, smaller rural cities may not reap the same benefits from a municipal sales tax as larger centres.

The Association recognizes, furthermore, that a possible combination of provincial and municipal sales taxes may not foster political accountability in the perception of local taxpayers.

***RECOMMENDATION 23***

***The Committee does not endorse the use of a municipal poll tax.***

♦ **ENDORSEMENT**

The Association of Municipalities of Ontario does not endorse the institution of a municipal poll tax.

***Vertical Inequity***

In congruence with the argument advanced by Kitchen, 1984, the Association believes that a municipal poll tax leads to vertical inequities whereby one-person households pay less than multiple-person households.

***Administrative Problems***

Furthermore, the poll tax may pose administrative difficulties due to the need to maintain and update registers of occupants per household.

The Smith Report, 1967, raised similar concerns about a municipal poll tax:

> "We ... conclude that the poll tax has no place in a sound tax and revenue system. It is unfair, regressive, costly to administrator, and widely evaded, in brief, an anachronism in modern society". (p. 325)

***Problems in Implementation***

From a practical standpoint, experience in Great Britain has shown that the introduction of a per capita levy on individuals (or adult individuals) per household has generated a considerable degree of public criticism.

***RECOMMENDATION 24***

***The Commercial Concentration Tax should be turned over to municipalities.***

♦ **ENDORSEMENT**

In New Dimensions, 1990, and in its 1991 Pre-Budget Consultation Brief, the Association of Municipalities of Ontario indicated that the commercial concentration tax (CCT) constituted a provincial intrusion into the limited municipal revenue base. In 1989, the provincial government collected a total of $53 Million in revenues from the CCT. Estimated provincial revenues from the CCT for the 1991 fiscal year are set at $110 Million. The commercial concentration tax clearly represents a levy on real property. In keeping with recommendation 19 of the Advisory Committee Report which expresses the need for clearly defined fields of taxation for a respective level of government, AMO recommends that the commercial concentration tax be turned over to municipalities, and that they be allowed to implement or not implement the tax locally as they deem appropriate.

***RECOMMENDATION 25***

***The Committee recognizes that taxation may be useful in reducing environmental degradation. Where an appropriate local objective can be achieved, municipalities should be given the authority to impose appropriate environmental taxes.***

♦ **ENDORSEMENT**

The Association of Municipalities of Ontario endorses this recommendation, which would give municipalities the legal authority to impose environmental taxes. The past years have witnessed a dramatic increase in environmental awareness on the part of consumers. Municipalities should be given an appropriate legislative tool to respond to local citizens' concerns about environmental degradation occurring in their respective jurisdictions. However, the operationalization of this form of taxation will require further detailed research.

***RECOMMENDATION 26***

***Municipalities should be given the authority to impose a hotel tax at the discretion of council.***

- **ENDORSEMENT**

AMO supports recommendation 26 which would allow municipal councils to levy hotel and motel room taxes at their discretion.

Empirical evidence on the merits of this form of taxation comes primarily from the United States and from the Province of Quebec. For example, California passed enacting legislation allowing municipal governments and counties to levy this tax in the late 1960s. In Canada, the Province of Quebec passed amendments to Quebec's Meals Act, making visitors' accommodations subject to additional municipal taxation. Interestingly enough, the Quebec government did not make the hotel and motel room tax part of the general retail sales tax. The Province of Quebec thus succeeded in being the exclusive beneficiary of revenues generated by the new hotel and motel room tax. Quebec would have been obliged to share these revenues with the municipal sector under the retail sales tax act.

The Association of Municipalities of Ontario realizes that municipal property tax revenues are higher for visitor accommodations than for residential homes - thereby compensating municipalities in part for expenditures on tourism and/or convention promotion. However, AMO recognizes that in the case of large urban centres, which draw a significant number of seasonal visitors and business people attending conventions, revenues derived from property taxation on visitor accommodations do not necessarily match municipal expenditures for promoting a particular centre for business and tourism. AMO perceives the establishment of a hotel and motel room tax at the discretion of council as being a valuable tool to assist municipalities in recovering these costs.

***RECOMMENDATION 27***

***Upper-tier municipalities should be given the authority to impose special rates.***

***RECOMMENDATION 28***

***Increased flexibility in the services for which special rates may be charged and the basis on which they may be collected should be given to municipalities.***

♦ **ENDORSEMENT**

The Association of Municipalities of Ontario supports recommendations 27 and 28, which envision substantive improvements in the use of special rates as an additional source of municipal revenue.

Historically, the need for a new system of special rates, particularly capital levies, was addressed in the Smith Report, 1967, which stated that:

> "If special capital levies are to continue playing an important part in the financing of municipal undertakings, there is a need to develop a clear and consistent policy governing their use. The present multiplicity of procedures by which special levy projects may be initiated under several different statutes is illogical and confusing. Likewise, numerous anomalies are found among the legislative provisions dealing with objections and appeals, total and partial exemptions, and the allocation of costs". (p. 305)

The Smith Report, 1967, proceeded to set out detailed recommendations for a new system of special capital levies under a number of statutes, such as the Local Improvement Act, the Municipal Act, the Tile Drainage Act, the Drainage Act, the Public Utilities Act, the Police Act, the Telephone Act, and the Ontario Water Resources Commission Act.

AMO argues that both upper and lower-tier municipalities should have the right to levy special rates. Under this

provision, municipalities could establish a special levy designed to raise needed revenues for the improvement of municipal infrastructure.

AMO recognizes that a new legislative framework for the use of special rates will require further detailed analytical work leading to the development of certain options for new legislation. The Association stresses that under a reformed system of special rates municipalities should be able to charge fees to the actual beneficiary(ies) of services as opposed to charging service fees to all rateable property in a defined area.

*RECOMMENDATION 29*

***A new telecommunications tax including the taxation of cable TV companies should be devised to solve the growing problems with the existing tax system and broaden the revenue base.***

*RECOMMENDATION 30*

***The idea of using the gross receipts concept for other public utilities such as natural gas companies should be examined.***

♦ ENDORSEMENT

***MFOA Report on Gross Receipts Taxation, Public Utilities***

The Association of Municipalities of Ontario expressed full support for a recently published policy paper entitled Gross Receipts Taxation, Public Utilities, 1990, by the Municipal Finance Officers' Association of Ontario (MFOA), which examined the current usage and yield of gross receipts taxation in Canada and the U.S. The report assessed whether or not gross receipt taxation satisfies the basic principles of "good taxation", including the equitable treatment of all utilities, in this case administration costs of the tax, relationship between utility benefit and local expenditures, as well as inability of tax evasion. For the purpose of this report, public utilities are defined to include hydro, telephone, telegraph, natural gas, cable TV, water and steam.

Table 2 presents a summary of estimated revenues from a 5 per cent gross receipts tax for a selected number of municipalities and for Ontario's municipalities as a whole.

**TABLE 2**

**Summary Table of Revenues**

**Projected Revenues from a 5% Gross Receipts Tax on Utilities (1988)**
**In Thousands of Dollars**

| | Hydro | Telephone Telegraph | Gas | Cable (1989) | Water Steam | Total |
|---|---|---|---|---|---|---|
| City of Hamilton | 14,048 | 5,760 | 9,337 | 768 | 717 | 30,630 |
| Niagara Region | 9,273 | 6,729 | 8,502 | 1,092 | 741 | 26,337 |
| Town of Paris | 185 | 125 | 240 | 25 | 33 | 608 |
| City of Toronto | 25,559 | 17,120 | 6,955 | 2,413 | 4,620 | 56,667 |
| City of Ottawa | 10,721 | 8,345 | 3,719 | 1,183 | 1,032 | 25,000 |
| Sub-total | 59,786 | 38,079 | 28,753 | 5,481 | 7,143 | 139,242 |
| Total Ontario | 218,765 | 166,935 | 166,217 | 21,192 | 26,394 | 599,413 |

*(Note: Please refer to the original document for detailed revenue calculations.)*

The MFOA working group arrived at the following conclusions in support of gross receipts taxation:

> "A gross receipts tax is fair and equitable to all utilities because it applies to the same financial item - gross receipts (horizontal equity) ...
>
> A gross receipts tax would be understood by utilities because it is a direct tax applied to gross revenue ...
>
> A gross receipts tax would require some form of negotiation with utilities to determine which receipts are subject to the tax. Once agreement is reached a gross receipts tax is not subject to avoidance to any great extent.

The tax principle of revenue yield is satisfied by a gross receipts tax. A gross receipts tax on public utilities would yield revenues greatly exceeding the minimal administrative costs. Due to the monopoly market conditions in which utilities operate and due to the essential nature of the services utilities, a gross receipts tax would provide significant revenues in the long term.

The tax principle of reasonableness is satisfied by a gross receipts tax. A gross receipts tax would be applied to public utilities because they receive an economic benefit as a result of their use of municipal services. Regulatory boards during utility rate setting would ensure that a gross receipts tax would not affect the profitability of utility operations considered essential services". (pp. 21-22)

Based on the above, the AMO Fiscal Policy Committee endorsed the recommendation that "the Ministry of Municipal Affairs be requested to develop necessary legislation to have a gross receipts tax applied to public and private utilities to be used by municipalities in Ontario."

In conclusion, the Association of Municipalities of Ontario recognizes that the establishment of a new telecommunications tax and a gross receipts tax on utilities constitute appropriate mechanisms to broaden the municipal tax base and thus endorses recommendations 29 and 30.

***RECOMMENDATION 31***

***Payments in lieu of taxes under the authority of section 160 of the Municipal Act on properties owned by the Province should be replaced by payments made on an assessment/mill rate basis.***

♦ **ENDORSEMENT**

***Elimination of Payments-In-Lieu of Property Tax/Full Payment of Property Taxes***

In the past, the Association of Municipalities of Ontario has repeatedly argued for the elimination of payments in-lieu-of taxes by the provincial and federal government and the replacement of this payment mode by full property taxation for provincially and federally owned lands and sites. In New Dimensions, 1990, AMO underscored this policy stance highlighting that municipal governments fully respect the taxing powers of the provincial and federal government and in turn expect that this respect will be reciprocated with regards to municipal taxation powers:

> "The Association has long stated that all levels of government should pay their full share of property and other municipal taxes. The Association's recommendation is in keeping with the principles of municipal autonomy ... recognition of political accountability (and) ... legitimate recognition of the self-reliance of local government institutions. Just as municipal government must pay its full share of retail sales tax and other revenue generating taxes of the provincial government, so should the 'senior' levels of government protect the integrity of the municipal revenue base, the property tax system." (p. 39)

In a study conducted by the Ministry of Municipal Affairs for the Interministerial Committee on Infrastructure Financing, the author argued that full payment of property taxes for provincially owned and/or occupied lands/sites would be more equitable than the current payments in-lieu-of taxes:

> "Full payment of property taxes of all provincial properties would be more equitable ... from the local perspective and would better recognize the demand placed on urban infrastructure by large institutions." (Ministry of Municipal Affairs, undated, p. 11)

In conclusion, AMO lends full support to recommendation 31.

*RECOMMENDATION 32*

***Municipalities should be given the authority for more flexible use of user fees to mitigate costs imposed on municipalities.***

*RECOMMENDATION 33*

***When municipalities establish user fees, the following conditions should be borne in mind: the benefits are quantifiable and have little spillovers; charges should consider the consumer's ability to do without the service or good; and charges should be designed to maximize accountability.***

♦ ENDORSEMENT

The Association of Municipalities of Ontario perceives the further enhancement of a user fee payment system for a wide range of municipal services including parks and recreation, libraries, public transit, fire, police, day care and utilities as advantageous for a number of reasons.

User fees broaden the municipal revenue base. They allow the municipality to make rational investment decisions based on the demand and supply of the economic marketplace. Kitchen argued that the inherent advantage in providing user fees lies in the fact that user fees "provide correct signals in terms of indicating the quantity and quality of things that local residents desire. When consumers are forced to pay a price for each unit consumed, their actions signal the quantity and quality of output desired." (Kitchen, 1984, p. 265) User fees assist municipalities in setting municipal priorities based on consumer demand. Inversely, user fees may also function to restrain public demand for particular municipal services.

The AMO Rural Section expanded on the two recommendations by emphasizing that the pricing policies for user fees should be flexible enough to allow municipalities to recover capital replacement costs associated with providing a service financed by user fees.

AMO is also in agreement with the conditions identified by the Advisory Committee Report for the institution of user fees. These conditions are reflected in the literature on user fee financing system. For example, the City of Edmonton listed the following set of conditions as suitable for a user fee system:

> "A municipal service is amenable to partial or total user fee financing when the following conditions are met:
>
> 1. The lack of user fees encourages excess use or a substantial waste of the service.
>
> 2. The service benefits accrue primarily to individuals, with a marginal or debatable benefit being derived by the community at large, from the provision of the service.
>
> 3. Users are readily identified, monitoring costs are low and collection occurs directly on site.
>
> 4. The income effects of the charge are not contrary to accepted equity principle, that is, special interest groups do not bear the brunt of the fee". (The City of Edmonton, 1984, p. 70)

In summary, AMO fully supports recommendations 32 and 33.

***RECOMMENDATION 34***

***Municipalities should be given the flexibility to fully recover the costs of administration, issuance and enforcement through licence fees.***

♦ **ENDORSEMENT**

Licence fees were established a long time ago with the effect that current fee structures bear little resemblance to actual costs incurred in providing the licensing services.

AMO supports recommendation 34, as it perceives the need for an updated system to recover the costs resulting from the administration, issuance and enforcement of licences.

## 4.4 FINANCING FOR CAPITAL FORMATION (RECOMMENDATIONS 35 - 38)

*RECOMMENDATION 35*

***The Province should consider providing municipalities with more flexibility for innovative asset management arrangements and public/private sector co-ventures.***

*RECOMMENDATION 36*

***Section 36 of the Planning Act should be revised to ensure that it is used purely as a planning tool and an equivalent financing tool should be made available to municipalities at both the upper and lower tier levels.***

♦ ENDORSEMENT

AMO endorses recommendations 35 and 36 which, if implemented, would assist municipalities in dealing with increased public demand for infrastructure improvements in such areas as transportation, water and sanitary sewer facilities, police and fire stations, municipal homes for the aged and cultural, recreational and educational facilities. AMO would be pleased to engage in discussions with the Province of Ontario to develop enabling legislation to allow for innovative assets management and increased usage of public/private co-ventures within the context of the Municipal Act and the Planning Act. The Association also recognizes the need to conduct a review of other jurisdictions which have successfully employed these financing mechanisms.

***RECOMMENDATION 37***

***The Province should proceed with the recommendations of the working committee on debt issuance and investment policy.***

***RECOMMENDATION 38***

***Given a realignment of roles and responsibilities, Ontario Municipal Board debt guidelines should be revised and based on municipal own-source revenue.***

♦ **ENDORSEMENT**

AMO has repeatedly underscored the need for a reformed system of municipal investment and borrowing. For example, in its pre-budget consultation brief, the Association encouraged the provincial government to re-introduce Bill 229, which received first reading on June 26, 1990. Bill 229 represents the cumulative efforts of a joint committee of provincial representatives from the ministries of Municipal Affairs and Treasury and Economics, plus senior members of the Investment Dealers of Ontario and four municipal representatives who reviewed currently existing legislation dealing with municipal investing and borrowing powers over a three-year period. This proposed piece of legislation would allow municipalities to borrow in the most cost-effective manner, invest for maximum returns commensurate with security of capital, and reduce administrative procedures.

Furthermore, AMO agrees that a revised system of roles and responsibilities between the Province of Ontario and the municipal sector necessitates adjustments to the currently existing debt capacity guidelines (20 per cent of revenue fund expenditures) in order to ensure that municipalities retain the same degree of flexibility in financing projects through borrowing.

# 5.0 IMPLEMENTATION

***RECOMMENDATION 39***

***The Province should adopt the direction for realigning roles and responsibilities in this report and should establish a fiscal framework for implementation, in consultation with the municipal sector.***

♦ **ENDORSEMENT**

At the time of writing this response, the Association of Municipalities of Ontario and the Province had agreed to a general framework for proceeding with the disentanglement exercise. Although a number of operational decisions are still to be made, including the exact structure of the disentanglement process, the time-frame for the process and the possible starting points for negotiations, it has been agreed that a fundamental element of the process will be full and open consultation with all affected interests.

In entering into this process, the Association of Municipalities of Ontario would like to advance several recommendations with respect to the financial parameters of the disentanglement process and the interim unconditional grant levels for the 1992 fiscal year.

♦ **Financial parameters for the negotiation process**

AMO recommends that the following two principles guide the negotiations between the municipal sector and the Province of Ontario regarding the re-alignment of roles and responsibilities:

***Principle 1:*** *Municipalities which experience negative net financial impacts due to disentanglement will receive transitional financial assistance during the re-organization of the financial partnership.*

***Principle 2:*** *Upper and lower tier levels of government will negotiate financial adjustments concerning the usage of property tax revenues.*

- **Interim unconditional grant levels**

***Unconditional grants:*** *AMO proposes a uniform, across-the-board increase in unconditional grants at least equal to the rate of inflation for the 1992 fiscal year.*

AMO also requests that conditional grants be announced as a total package, and that both the conditional and unconditional grants be announced by November 15, 1991 for the 1992 fiscal year.

*Conclusion*

In conclusion, the Association of Municipalities of Ontario requests that the Province of Ontario enter into consultation with the municipal sector on the constitutional role of Ontario's municipalities.

AMO recognizes that any modifications to the current provincial-municipal finance system require far-reaching legislative changes. The Association is concerned that succeeding governments may reverse some of the progressive changes achieved in the process of disentanglement. Consequently, AMO argues that the disentanglement process will need to run parallel to a process designed to define and operationalize the constitutional role of Ontario's municipalities within the larger framework of fiscal federalism.

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AMO Social Development Committee
AMO Municipal Development Committee
AMO Ad Hoc Waste Management Committee

AMO Ad Hoc Task Force on Security Services
AMO Ad Hoc Task Force on Transportation

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